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attempting to take a middle ground between public ownership and unrestricted private operation, a position in which the public becomes a partner in the enterprise. Whether this final experiment will succeed will depend upon the cordiality with which public and carriers co-operate to achieve a common purpose.

Second, we have reached a stage in our policy of regulation where we may well pause and take account of stock. We have gone a long way and rapidly in the direction of inquisitorial supervision. To be sure, the government now has a large stake in the enterprise, having over a billion dollars of investment in railway property in the form of loans. Yet there is a point in the regulation process that represents a fair balance between the private agency that furnishes the capital and the management, and the public which asserts control over rates and service. If we insist upon carrying our paternalism and our discipline to the point where private capital will rebel, where private initiative will be deadened, where the net result of the association of private capital and government management will be a decline in the standard of service produced, we must either draw back or be prepared to accept the alternative, however disagreeable, and undertake the responsibility of public ownership and public operation.

THE RAILROAD SITUATION—DISCUSSION

C. O. RUGGLES.—In the discussion of Professor Dixon's paper I wish to call attention especially to what he has called the altered relationship of the Interstate Commerce Commission to the service of transportation. And in this connection it is highly significant to point out that the Commission is responsible to the carriers for the net earnings and to the public for an efficient and sufficient transportation service.

There does not appear to be any doubt that we have reached a point where railroads will not be permitted to receive a rate of return on capital comparable to what it will be able to earn in competitive industry. Therefore if we are to take no backward step on this proposition, the only possible consistent program is to move forward and provide for a certain return to carriers. If we are to say to carriers when they are prosperous, as we did about 1906, that rates to the public ought to be reduced, we must be prepared to permit an increase in their rates when railroad revenue is inadequate. If an increase in rates, at such times, coincides in the business cycle with such depression in business that increased revenue will not be produced by advances in the rate schedule, then there is but one solution, and that is a payment to the carriers from a revolving fund administered by the government. Of course this assumes that the government might desire during periods of ample railway revenue to divert part of this revenue into such a fund to be used as a shock absorber during periods of business depression.

The weak link in having the Interstate Commerce Commission assume responsibility for a return to carriers is the danger of relieving railroad management of the responsibility of handling the properties economically.

While it would be rash to predict what will be the outcome of this experiment, it is evident that it will be easier to determine whether a road is in need of more capital because of inefficient management or because of inadequate rates than it would have been before provision had been made for uniform and somewhat detailed accounting.

In considering whether capital has been put in a straight-jacket and robbed of its initiative, it is well to keep in mind the fact that, although the zone is a very narrow one, still the law is so framed that the return, which is to be assured to the carriers, is based upon the aggregate valuation of all the roads within a certain region, and is in no sense an assured return to any individual road. Moreover, it may not be out of place to point out that there are various classes of persons with capital to invest. There are those satisfied with nothing but a very high return, while at the other extreme there are others who consider safety of the investment first and rate of return as of secondary importance. In our early history, and before any regulation of carrier accounts, railways were in that group where both great gains and great losses were possible. In other words, carriers were in the speculative group. If now government regulation is to assure the railroads against losses, it would appear that that class of investors who desire safety of their investments as of prime importance would be willing to purchase railway securities.

If the new law requires the Interstate Commerce Commission to give more attention to progressing railway service it will fill a long felt need. Study of this phase of the subject will convince one that we should have had thoroughgoing regulation of railway service at least twenty years ago. It may be true that we are likely to have agitation for government ownership and regulation as a result of putting private capital in a straight-jacket, but it is more probable that there will be a demand for government ownership and operation as a result of a breakdown in railway service. Railway service touches the public in a vital way, and disgust on the part of the general public as a result of unsatisfactory railway service would be much more likely to bring government ownership of railroads than would dissatisfaction on the part of investors because of limited railway earnings.

In framing a program of regulation which will insure to the public efficient and sufficient railway service, we must recognize the fact that we cannot longer permit the control over the distribution of railway equipment to remain in the hands of the carriers. Our large area and our marked geographical division of labor make this problem more vital than it is in other countries. While the Transportation Act of 1920 gives control over the distribution of equipment to the Interstate Commerce Commission whenever conditions reach such a stage that interference is deemed necessary, it is a question whether we shall not need to go to the length of eliminating individual railway ownership of railway equipment. Equipment companies could be organized covering the areas into which the Interstate Commerce Commission will group the carriers for purposes of determining rate of return. In addition to these regional boards there should be a central board of control of railway equipment for the entire country. There should be appointed on these boards men familiar with the railway business, and they should be given very long terms and liberal salaries, and thus relieved of their railway company connections. On these boards would, of course, be representatives of the Interstate Commerce Commission or of the govern-

ment. The strength of such a plan is in the elimination of individual railway system control over equipment. The equipment companies would have no interest in serving one railroad system over another or one locality of the United States over another. Hence there would be a more equitable distribution of railway equipment as between what may be called the "one and two-way" shipping groups. Those sections which produce raw materials would thus secure a more equitable share of railway equipment. Coal mines, which also belong to the "one-way" shipping group, would not be sacrificed to big industrial concerns that get many cars in under load and appropriate them as they are made empty; and mine operators would not find it necessary to sign unfavorable contracts for railroad fuel in order to feel that they can secure an adequate car supply.

One other very important change in private ownership and operation of carriers must be made or there will undoubtedly be a growing demand for government ownership. I refer to the very unsatisfactory railway service at terminals. It happens too that government ownership would be especially unsatisfactory in this very feature of our railway service. If we had government ownership and control of carriers, the amount of traffic which would pass through the port of New York as compared with New Orleans would be determined in the same manner that river and harbor appropriations are made at present. The shipping public will never be able to get the service to which it is entitled so long as we continue individual railway control of terminal facilities. An examination of railway terminal tariffs will show that railways use these railway terminal facilities in such a manner as to encourage shippers to give the line haul to the road owning such terminal facilities and to discourage routing traffic over other lines. Indeed it is not uncommon for a carrier to state in its terminal tariffs that it reserves its terminal facilities for its own use except upon such terms as it may see fit to grant. And it has been held by the Interstate Commerce Commission and by the courts in cases involving joint rating that one carrier may not be compelled to make certain joint tariffs if it means in effect the opening of all its terminal facilities to the use of a competitive road. There has not been sufficient appreciation on the part of the public of the significance of the lack of coordination on the part of the carriers in the use of terminal facilities. Naturally some carriers occupy strategic positions in terminals because historically they were the first to enter. A map of most of our terminals will show too that they have usually located within terminals in such a way as to make it difficult for other carriers to secure favorable locations. It is evident that terminal congestion which may result from the fact that the facilities of one carrier are used beyond capacity means increased earnings to the carrier on which congestion occurs, for as the freight is moved the carrier receives its revenue. From the standpoint of the public, however, it is desirable to have all the terminal facilities used as a unit. Individual carriers through eminent domain have been able to take certain property for common carrier use. It is now time to apply eminent domain to individual railroad property in terminals, and to demand that all terminal facilities be owned and controlled by a separate terminal corporation, which in turn would serve all carriers on equal terms. Such a plan would mean that all railroads reaching a terminal would have the advantage of whatever terminal facilities were provided in that terminal. If some carriers lose by such a reorganization of private ownership, the public would

gain. The justification of individual railway system gain at the expense of the public will be increasingly difficult as the public appreciates that the inefficiency in the physical coördination of railroads in terminals is at the bottom of many of the difficulties in the way of securing efficient railway service. Congestion in Atlantic terminals may mean embargoes on freight in Denver. Physical coördination and unification of all terminal facilities in our important terminals would amount to an important addition to the transportation facilities of this country. And indeed about the only way to bring about an increase in most of our terminal facilities is through effective coördination and more intensive use. Geographical conditions and the rapid growth of cities about transportation centers in our important cities often limit extensive development of terminal facilities. Hence the significance of unification and intensive development.

The Interstate Commerce Commission very properly emphasizes the importance of increasing federal control over carriers. This Commission must control railroad rates if it is to be held responsible for securing an adequate revenue to carriers. It is also important that state control of railway service be curtailed. If Connecticut, for example, grants shippers four days free time in which to unload carload freight, whereas in Minnesota but two days are allowed, it means a discrimination in favor of Connecticut shippers. Likewise if a state sets a low carload minima it may mean lower freight rates to industries in that state, but it also means that shippers in that state will absorb more than a fair share of railway equipment.

It makes no difference, therefore, whether inefficiency in the use of the railway plant results from the action of individual railway systems in the unfair appropriation of railway equipment, or from a restriction in the use of terminal facilities to its own advantage, or whether the same results are produced by a state that passes laws favorable to its own interests, the effect upon the public is the same.

If this reasoning is sound, we ought to have such a modification of private ownership as will make it reasonable to expect that each corporation engaged in furnishing transportation will find it to its own interest to secure the maximum coördination in the use of all transportation facilities. The organization of separate equipment corporations that would own railway equipment would bring about a more equitable distribution of this equipment. The organization of separate terminal corporations that would own all railway terminal facilities would open to all carriers alike the use of all terminal facilities. The physical coördination which would thus be possible would mean much more efficient railway service. Finally, the curtailment of regulation by the various states would prevent the inequalities that result from both rate schedules and service regulations. Such changes would materially improve the quality of railway service, and, if carried out in a vigorous manner, would postpone if not eliminate the demand for government ownership.